MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

DBM5028 – BUSINESS FINANCE

(Diploma Students Only)

17 OCTOBER 2018
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 11 pages with 2 sections.

2. For section A, please shade your answers on the OMR sheet provided.

3. For section B, please write your answers in the answer booklet provided.

4. Answer ALL questions.

5. The formulae are given in the appendix.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 marks)
Instruction: Shade your answers on the OMR sheet provided.

1. Rayhan needs to get financial advice from companies that is specialised in financial matters. These companies are referring to banks or insurance companies. Which basic area of finance this situation is referring to?

   A. Corporate finance.
   B. Investment.
   C. International finance.
   D. Financial institutions.

2. Nur Iyli works in MMU's finance department. As a _____ she oversees the taxes and cost accounting matters.

   A. treasurer
   B. tax collector
   C. debtor
   D. controller

3. Rui Ern needs to decide on how should her company pay for the new production machine they bought. Which financial management decision making is involved?

   A. Capital structure.
   B. Capital management.
   C. Capital budgeting.
   D. Capital restructuring.

4. "Unlimited liability and difficulty in transferring ownership". This statement **BEST** describes which business disadvantage?

   A. Partnership.
   B. Private limited company.
   C. Sole proprietorship.
   D. Corporation.

5. A company needs to manage their finance because they need to _____.

   A. minimise the market value of the company's stock
   B. maximise the current value per share of the company's existing stock
   C. minimise the overall profit sharing
   D. maximise the future value of the competitor's stock

Continued...

6. What is the major role of a secondary market?

   A. Issue new securities to public.
   B. Trading securities that have been issued.
   C. Provides a one method pricing mechanism.
   D. Determining the number of shares to buy.

7. If an investor wants to refer to the asset's historical cost, the investor needs to refer to the _____ of the asset.

   A. book value
   B. market value
   C. investing value
   D. future value

8. What is the function of general accepted accounting principle (GAAP) matching principle?

   A. Define the amount of asset and liability a company has.
   B. Identifying the flow of money being used.
   C. Measuring the overall debt of the company.
   D. Matching the expenses required to generate revenue.

9. Seng Hup Sdn. Bhd. has stated a long-term debt of RM280. Their Current liability is RM350 and cost of goods sold at RM50. Calculate the total liability of this company.

   A. RM70.
   B. RM150.
   C. RM630.
   D. RM680.

10. Given the firm's total asset is RM800 and their fixed asset is RM280. Total sales of the firm is RM10,000 and the cost of doing the business is at RM5,000. Calculate the firm's earnings before interest and taxes (EBIT).

   A. RM800.
   B. RM1,080.
   C. RM3,920.
   D. RM5,000.

Continued...

11. As an accountant, you are required to calculate the current liability of the company with the below details:

Long-term debt	RM700
Total asset	RM1,000
Fixed asset	RM800
Net working capital	RM30
Earnings per share	RM8.80

    A. RM170.
    B. RM270.
    C. RM300.
    D. RM700.

12. Xuan Xuan wants to know the amount of total tax paid on her taxable income of RM2,800. Based on the data below, calculate the total tax paid.

Taxable Income (RM)	Tax Rate (%)
0 – 1,000	6
1,001 – 2,000	12
2,001 – 3,000	40
3,001 – 4,000	15

    A. RM440.
    B. RM500.
    C. RM1,120.
    D. RM1,300.

13. The financial statements of Hao Hao reflect depreciation expenses of RM5,000 and interest expenses of RM900 for the year. The statement also indicates the ending net fixed asset at RM20,600 and the beginning net fixed assets is RM13,900. What is the amount of the net capital spending for the year?

    A. RM11,700.
    B. RM29,400.
    C. RM38,100.
    D. RM63,900.

14. Which one of the following is in the category of asset in the balance sheet?

    A. Notes payable.
    B. Retain earnings.
    C. Net fixed assets.
    D. Common stock.

Continued...

15. A _____ is the percentage of tax paid on the next ringgit earned by the company.

    A. average tax
    B. total tax
    C. tax deductible
    D. marginal tax

16. John plans to invest RM55 today with an interest of 12 percent. This will enable him to receive RM88 in 5 years' time. The amount of RM88 is referred to as the _____.

    A. future value
    B. present value
    C. true value
    D. discounted value

17. Carene is thinking to invest her RM400 for 3 years. Which of the following will give her the highest future value?

    A. 9 percent of simple interest.
    B. 8 percent interest that compounded semiannually.
    C. 5 percent of simple interest.
    D. 2 percent interest that compounded annually.

18. Zoe Furniture Engineering Bhd invested RM25,000 at 8 percent interest, compounded annually for 6 years. How much interest on interest did the company earn over this period of time?

    A. RM39,671.86.
    B. RM37,000.00.
    C. RM2,671.85.
    D. RM76,671.86.

19. Xing Ling went to the bank today and deposited RM3,800 in a saving account that will give a 6 percent simple interest. What will be the amount of money she will be receiving in 5 years?

    A. RM1,140.00.
    B. RM3,800.00.
    C. RM2,839.58.
    D. RM4,940.00.

Continued...

20. Yin Yin wants to know how long does it takes to triple her money if she made an investment that gave her a 5.2 percent of interest?

   A. 21.62 years.
   B. 2.62 years.
   C. 18.75 years.
   D. 34 years.

21. In a normal practice by banks, the bank pays simple interest on a savings account which pay interest _____.

   A. on interest.
   B. on the initial principal amount.
   C. on the reinvested amount.
   D. on the beginning of investment period only.

22. The interest rate used to compute the present value of a future cash flow is called the _____.

   A. discount rate
   B. interest rate
   C. simple rate
   D. compounding rate

23. Given an interest rate that increases in value, the future value of a lump sum invested today will always _____.

   A. decreases
   B. increases
   C. remain constant
   D. be equal to zero

24. Which one of the following statement is **CORRECT**?

   A. Decreasing the inventory period will also decrease the payable period.
   B. Firm decreases its inventory period; its accounts receivable period will also decrease.
   C. The longer the cash cycle, the more cash a firm typically has available to invest.
   D. A firm would prefer a negative cash cycle over a positive cash cycle.

Continued...

25. Nan Hao Sdn. Bhd. did not change the level of their current asset despite any seasonality in sales. This situation is best referring to?

   A. Carrying cost of asset.
   B. Order cost of asset.
   C. Temporary current assets.
   D. Permanent current assets.

26. Mummy Monster products changes its policy and starts requiring all of its customers to pay within 15 days rather than the 55 days that it currently allows. Which one of the following will result from this change?

   A. Decrease in cash cycle.
   B. Increase in inventory period.
   C. Increase in receivables period.
   D. Increase in operating cycle.

27. An increase in the accounts receivable period will do which one of the following?

   A. Lengthen the accounts payable period.
   B. Shorten the inventory period.
   C. Shorten the operating cycle.
   D. Extension of the cash cycle.

28. Operating cycle is reflecting to the time required to receive inventory, sell it and collect the receivable generated. Which one of the following will increase the operating cycle?

   A. Decreasing the days' sales in inventory.
   B. Decreasing the inventory turnover rate.
   C. Decreasing the accounts payable period.
   D. Increasing the accounts receivable turnover rate.

29. Which one of the following is the length of time a retailer owes its supplier for an inventory purchase?

   A. Inventory period.
   B. Accounts payable period.
   C. Accounts receivable period.
   D. Cash cycle.

Continued...

30. Which of the following is the sources of cash?

    I.   Decrease long-term debt.
    II.   Increase equity.
    III. Decrease current assets.
    IV. Decrease fixed asset.

    A. I and II only.
    B. III and IV only.
    C. I, III and IV only.
    D. I, II and III only.

31. Goo Shu Ptd. Ltd. has stated sales of RM20,000 in 2018 and a cost of goods sold of RM5,000. The company carries an average inventory of RM1,000 and has an average accounts payable of RM500. Calculate the inventory period?

    A. 73 days.
    B. 18.25 days.
    C. 36.50 days.
    D. 7.3 days.

32. Why does a bank normally conduct a credit analysis on their potential customers?

    A. To differentiate between customer that will pay and customer that will default.
    B. To avoid loss of the principal value of credit.
    C. To sustain the economic conditions related to customer's business.
    D. To gain an optimal trade-off.

33. The term float is normally defined as the difference between which of the following?

    A. Starting cash balance and the ending cash balance as shown on a cash budget.
    B. Book balance and the ledger balance.
    C. Cash account and cash balance in bank.
    D. Collections and disbursements for any given period of time.

34. Once the local bank picks up all the checks, cash concentration will later be done. What happen in the process of cash concentration?

    A. Cash will be deposited to respective accounts.
    B. Funds are gathered into the firm's main accounts.
    C. Disbursement float of the fund received.
    D. Changing of interest rate.

Continued...

35. Which one of the following credit characteristic that relates to ability to meet financial obligations out of the operating cash flows?

    A. Conditions.
    B. Capital.
    C. Capacity.
    D. Character.

36. In order to manage your company's inventory which of below can be done?

    I.   Maintaining larger quantities of item that have substantial shortage costs.
    II.   Maintaining smaller quantities of expensive items.
    III. Maintaining a substantial supply of less expensive basic material.
    IV.   Maintaining larger quantities of less demanded inventories.

    A. I, II and III only.
    B. I, III and IV only.
    C. II, III and IV only.
    D. I, II and IV only.

37. Dee Zhi's company has a carrying cost of RM5 and a fixed cost of RM20. In 2017 they sell a total of 300,000 units of their product. Calculate the company's economic order quantity?

    A. 1549 units.
    B. 693 units.
    C. 300 units.
    D. 1256 units.

38. Which one of the following system that relates to reordering and restocking frequently?

    A. Materials Requirements Planning.
    B. Just-in-time inventory.
    C. Kanban.
    D. Keiretsu.

39. A firm grants credit with terms of 3/8, net 10. The firm's customers have _____ days to pay in order to receive a _____ percent discount.

    A. 10; 11
    B. 8; 3
    C. 3; 8
    D. 8; 10

Continued...

40. Barney Inc. holds an amount of RM25,000 in cash. The reason is to grab unexpected investment opportunity. Which one of the following refers to holding cash for this type of purpose?

A. Precautionary motive.
B. Speculative motive.
C. Transaction motive.
D. Opportunistic motive.

[TOTAL 40 MARKS]

Continued...

SECTION B: STRUCTURED QUESTIONS (60 marks)
Instruction: Write all your answers in the answer booklet provided.

QUESTION 1

Amirul is borrowing RM25,000 for 5 years with an APR of 7 percent. The loan calls for the principal balance to be reduced by equal amounts over the life of the loan. He makes a single fixed payment every year with the interest is being paid in full each year. Prepare the amortization table schedule.

(TOTAL 20 MARKS)

QUESTION 2

Minnion Sdn. Bhd. has stated a face value of their bond at RM1.000. The current market value of their bond in 2018 is RM5,500. Their bond pays interest annually and will mature in 12 years. It also has a yield to maturity of 8.5%.

a. Calculate the amount of return for an investor based on the company's annual coupon payment and the bond's current price.

(6 marks)

b. Is the bond selling at par, premium or discount? Why?   (2 marks)

c. In the next few years, Minnion Sdn. Bhd. has plan that they will issue an 8 years discounted bond with a yield to maturity of 8.5 percent. How much should the company charge for this bond?   (2 marks)

d. Based on your answer in (c), how many bonds should the company sell in order to gain a capital of RM3 million?

(3 marks)

(TOTAL 13 MARKS)

Continued...

QUESTION 3

a. Janice Tan Inc. has recorded a very good financial year. The company is expected to pay the following dividends over the next 3 years:RM2.50, RM5.00 and RM8.00 to all of their shareholders. After the third year, the company will maintain a constant dividend at 8 percent growth rate forever. If the required return for this stock is 25%, what is the value of the stock today? (8 marks)

b. Wei Xuan is interested to invest in a stock of Carene Sdn. Bhd. that has a stock price of RM38.00. Wei Xuan is expected to gain a dividend growth rate of 15% and the most recent dividend payout is RM0.80. Find out what will be the required return of this stock? (3 marks)

(TOTAL 11 MARKS)

QUESTION 4

a. Ah John is planning to invest in a multi-billion project after he finishes his studies. The initial cost of the project will be RM10,000. The project will be producing the below cash inflows for 4 years:

Year	0	1	2	3	4
Cash inflow	-RM10,000	RM3,500	RM3,800	RM2,000	RM5,000

Calculate:
   i. Payback period. (7 marks)

   ii. If the estimated payback period is 2 years, should Ah John accept the project? (1 marks)

   iii. If the project gives a discount rate of 35 percent, what will be the project's profitability index? (7 marks)

   iv. Should Ah John continue to accept or reject the project based on your answer in **(iii)** (1 mark)

(TOTAL 16 MARKS)

End of Page.

FORMULA APPENDIX

I. **The cash flow identity**
Cash flow from assets = Cash flow to creditors (bondholders)
+ Cash flow to stockholders (owners)

II. **Cash flow from assets**
Cash flow from assets = Operating cash flow
− Net capital spending
− Change in net working capital (NWC)
where
Operating cash flow = Earnings before interest and taxes (EBIT)
+ Depreciation − Taxes
Net capital spending = Ending net fixed assets − Beginning net fixed assets
+ Depreciation
Change in NWC = Ending NWC − Beginning NWC

III. **Cash flow to creditors (bondholders)**
Cash flow to creditors = Interest paid − Net new borrowing

IV. **Cash flow to stockholders (owners)**
Cash flow to stockholders = Dividends paid − Net new equity raised

I. **Symbols**
PV = Present value, what future cash flows are worth today
FV_t = Future value, what cash flows are worth in the future
r = Interest rate, rate of return, or discount rate per period typically , but not always, one year
t = Number of periods typically , but not always, the number of years
C = Cash amount

II. **Future value of C invested at r percent per period for t periods**
$FV_t = C \times (1 + r)^t$
The term $(1 + r)^t$ is called the *future value factor.*

III. **Present value of C to be received in t periods at r percent per period**
$PV = C/(1 + r)^t$
The term $1/(1 + r)^t$ is called the *present value factor.*

IV. **The basic present value equation giving the relationship between present and future value is**
$PV = FV_t/(1 + r)^t$

I. **Symbols**
PV = Present value, what future cash flows are worth today
FV_t = Future value, what cash flows are worth in the future at time t
   r = Interest rate, rate of return, or discount rate per period typically , but not always, one year
   t = Number of periods typically , but not always, the number of years
   C = Cash amount

II. **Future value of C invested per period for t periods at r percent per period**
$FV_t = C \times [(1 + r)^t - 1]/r$
A series of identical cash flows is called an annuity, and the term $[(1 + r)^t - 1]/r$ is called the *annuity future value factor*.

III. **Present value of C per period for t periods at r percent per period**
$PV = C \times \{1 - [1/(1 + r)^t]\}/r$
The term $\{1 - [1/(1 + r)^t]\}/r$ is called the *annuity present value factor*.

IV. **Present value of a perpetuity of C per period**
$PV = C/r$
A perpetuity has the same cash flow every year forever.

I. **Finding the value of a bond**
Bond value $= C \times [1 - 1/(1 + r)^t]/r + F/(1 + r)^t$

where

  C = Coupon paid each period
  r = Rate per period
  t = Number of periods
  F = Bonds face value

II. **Finding the yield on a bond**
Given a bond value, coupon, time to maturity, and face value, it is possible to find the implicit discount rate, or yield to maturity, by trial and error only. To do this, try different discount rates in the formula above until the calculated bond value equals the given bond value. Remember that increasing the rate *decreases* the bond value.

I. **The general case**

In general, the price today of a share of stock, P_0, is the present value of all of its future dividends, $D_1, D_2, D_3, \ldots$:

$$P_0 = \frac{D_1}{(1 + R)^1} + \frac{D_2}{(1 + R)^2} + \frac{D_3}{(1 + R)^3} + \cdots$$

where R is the required return.

II. **Constant growth case**

If the dividend is constant and equal to D, then the price can be written as:

$$P_0 = \frac{D}{R}$$

If the dividend grows at a steady rate, g, then the price can be written as:

$$P_0 = \frac{D_1}{R - g}$$

This result is called the *dividend growth model*.

III. **Nonconstant Growth**

If the dividend grows steadily after t periods, then the price can be written as:

$$P_0 = \frac{D_1}{(1 - R)^1} + \frac{D_2}{(1 + R)^2} + \cdots + \frac{D_t}{(1 + R)^t} + \frac{P_t}{(1 + R)^t}$$

where

$$P_t = \frac{D_t \times (1 + g)}{(R - g)}$$

IV. **Valuation Using Multiples**

For stocks that don't pay dividends (or have erratic dividend growth rates), we can value them using the PE ratio and/or the price-sales ratio:

P_t = Benchmark PE ratio $\times$ EPS$_t$

P_t = Benchmark price-sales ratio $\times$ Sales per share$_t$

V. The required return, R, can be written as the sum of two things:

$R = D_1/P_0 + g$

where D_1/P_0 is the *dividend yield* and g is the *capital gains yield* (which is the same thing as the growth rate in dividends for the steady growth case).